

## The Elusive Dollar

by Barney Whatley  
Capacity Development Specialist

More water systems are discovering that funding for improvement projects is becoming harder and harder to find. In Nebraska, there are four main sources available for water systems to finance improvement projects. They are Community Development Block Grant (CDBG) funding, United States Department of Agriculture Rural Development (USDA-RD) funding, Nebraska State Revolving loan Funds (SRF) and private bonding companies. There are distinct advantages and disadvantages to each of these funding mechanisms that might determine which one, or which combination of more than one might be chosen for any particular system.

CDBG grants are the most attractive of the funding options because they are grants that do not need to be repaid. One of the limitations of these grants is that the maximum allowed for any one system is \$250,000. In this day and age, that will not complete most major system improvement projects, when you consider that a municipal well is estimated to cost around \$250,000 and a water storage tank can exceed that amount, depending on the capacity needed. A roadblock to receiving CDBG funding for many systems is the income guidelines the system needs to meet to be eligible for the funding. CDBG required that a community have more than 51% low to moderate income (LMI) persons in the target area to be eligible for the funding. For a system-wide project, the most recent census data is usually used. If a system is targeting only a portion of their customers, an income survey may need to be completed. Under new CDBG guidelines, any survey not returned is counted as exceeding the LMI limits. This makes it extremely difficult for a system to successfully complete an income survey.

USDA-RD funding is one of the most used sources for funding water system improvements. This is partially due to the relatively large amount of funds available and the reasonable interest rates charged for loans. Although funding is available to any system that qualifies, interest rates and the availability of grant funds are directly tied to the median household income of the system. Grant funds are further limited in that they do not become available until the average monthly water bills for the system reach a predetermined amount, which at this time is approximately \$36. USDA also requires systems to pass a test of credit, which basically means that commercial lenders are not willing to loan the system the needed money due to bonded indebtedness or other reasons. Also, USDA reviews systems with outstanding loans, and when it is determined that the system would be able to pay off USDA with a commercial loan, the system will be required to find an alternate source of funds to pay off the USDA loan.

SRF funds are also available to most systems, but like USDA funding, the interest rate is tied to the income levels of the citizens of the system. SRF funding does have a provision for loan forgiveness, but this is dependent on the project being completed to address a health issue, such as an Administrative Order for nitrate, arsenic, etc. SRF interest rates are generally more favorable than commercial rates, but there is a limit on the length of the loan of 20 years. The system is expected to set water rates at a level that will guarantee repayment of the loan, and often this can be higher than the USDA required average monthly bill.

Commercial borrowing is another method available for funding system improvement projects. If the system is financially sound and is not burdened with extensive bonded indebtedness, this can be a good option. Most communities have worked with bonding agencies in the past, so the history of the system and the ability to repay the bonds is familiar to the company. This can make the process faster than it might be when using federal or state funding agencies. As the financial markets fluctuate, bonds often look good to potential investors, and the interest rates can be very competitive. The biggest disadvantage with commercial bonding is that they do not contain any grant funds, and often the system is ineligible for grants from other sources when commercial lending is the chosen funding mechanism.

Whatever funding mechanism a system decides to pursue, it must be kept in mind that grant funds seem to diminish every year and are becoming harder to get for systems, unless there is a real health hazard or the system customers have very low incomes. The days of “free” government money are gone forever, and systems will be expected to pick up the burden of financing their own improvements. Budgeting for the future and setting up an asset management plan are two ways that systems can begin planning for the future and working their way towards self sufficiency.